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LIMDIS HOLD FOR OPENING OF BUSINESS

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C O N F I D E N T I A L MOSCOW 19000

LIMDIS

E.O. 11652: GDS
TAGS: OVIP, UR, EEWT, EFIN, EGEN, ENRG, ETRD
SUBJECT: VISIT OF SECRETARY OF THE TREASURY SIMON TO MOSCOW -
SESSION WITH STATE BANK CHAIRMAN ALKHIMOV

FOLLOWING REPORT BASED ON UNCLEARED MEMORANDUM OF CONVERSATION PRE-
PARED FOLLOWING DEPARTURE OF SECRETARY SIMON FROM MOSCOW.

SUMMARY: SECRETARY SIMON MET ON NOVEMBER 20 WITH SOVIET STATE BANK
(GOSBANK) CHAIRMAN ALKHIMOV PRIOR TO OPENING OF US-USSR TRADE AND
ECONOMIC COUNCIL IN MOSCOW. THE PRINCIPLE SUBSTANTIVE ISSUES DIS-
CUSSED WERE (A) FINANCIAL AND MONETARY POLICY, (B) GOLD, (C) OIL
AND ALTERNATIVE SOURCES OF ENERGY AND (D) PROSPECTS FOR US-SOVIET
TRADE. SECRETARY SIMON REBUTTED ALKHIMOV'S COMMENT THAT USG IS
UNDERMINING PRICE OF GOLD. SECRETARY STATED THAT REASONABLE PRICE
FOR OIL WOULD BE WELL BELOW PRESENT ONE; ALKHIMOV SAIS USSR IS
SATISFIED BY EXISTING PRICE. AFTER ALKHIMOV POLITELY COMMENTED
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PAGE 02 STATE 304583

THAT ONLY "LIFE" COULD DETERMINE WHEN US-SOVIET TRADE RELATIONSHIP
WOULD BE NORMALIZED, SECRETARY SIMON RECALLED PRESENT ADMINISTRA-
TION'S CONSISTENT SUPPORT FOR REMOVAL OF LEGISLATIVE RESTRICTIONS
AND RECOMMENDED THAT SOVIETS TAKE UP THIS SUBJECT EARLY IN

CARTER ADMINISTRATION. END SUMMARY.

1. PRIOR TO PARTICIPATING IN OPENING OF US-USSR TRADE AND ECONOMIC COUNCIL NOVEMBER 30 IN MOSCOW, SECRETARY OF THE TREASURY WILLIAM E. SIMON PAID CALL ON SOVIET CO-CHAIRMAN OF THE TRADE AND ECONOMIC COUNCIL, VLADIMIR S. ALKHIMOV, WHO IS CHAIRMAN OF SOVIET STATE BANK (GOSBANK). SECRETARY SIMON WAS ACCOMPANIED BY THE CHARGE D'AFFAIRES; THE ECONOMIC ADVISOR TO THE PRESIDENT, WILLIAM SEIDMAN; ASSISTANT SECRETARY OF THE TREASURY GERALD PARSKY; THE EMBASSY E/C COUNSELOR AND A TREASURY OFFICER. WITH ALKHIMOV WERE GOSBANK FIRST DEPUTY DIRECTOR PETR Y. PCHELIN, SOVIET TRADE AND ECONOMIC COUNCIL VICE PRESIDENT PEKSHEV, SOVIET DEPUTY TRADE REPRESENTATIVE ALEKSEYEV AND GOSBANK PROTOCOL CHIEF NIMANDT.

2. IVANOV. AT THE OUTSET ALKHIMOV INTRODUCED THE DIRECTOR OF THE SOVIET FOREIGN TRADE BANK (VTG), YURIY IVANOV, AND IDENTIFIED HIM AS HAVING BEEN NAMED AS FIRST DEPUTY DIRECTOR OF GOSBANK AS WELL. IVANOV THEN DEPARTED.

3. FINANCE.

(A) ALKHIMOV SAID THAT THE CHIEF TASK OF GOSBANK IS TO ENSURE STABLE PRICES AND PREVENT INFLATION BY KEEPING THE MONEY SUPPLY IN TANDEM WITH AVAILABILITY OF GOODS. THIS IS NOT EASY. THERE IS HEAVY DEMAND BY PRODUCTION MINISTRIES FOR CREDIT, BUT THE STATE BANK HAS A STRICT POLICY.

(B) ALKHIMOV REFERRED TO A "START" HAVING BEEN MADE IN PREPARATIONS FOR THE LONG-TERM PLAN FOR 15 YEARS.

(C) SECRETARY SIMON ASKED HOW THE RATE OF SAVINGS IS DETERMINED; ALKHIMOV DID NOT RESPOND DIRECTLY BUT MENTIONED GOSBANK CONCERN ABOUT EXCESSIVE SAVINGS AND INSISTENCE ON THE AVAILABILITY OF GOODS TO SOAK UP INCREASED PURCHASING POWER.

(D) WITH REFERENCE TO FOREIGN TRADE, ALKHIMOV SAID GOSBANK AND VTG HAVE RESPONSIBILITY OF TELLING GOVERNMENT IF IT IS CONFIDENTIAL

PAGE 03 STATE 304583

BALANCE OR NOT. THIS HAD OCCURRED PRIOR TO DECISION TO PURCHASE GRAIN AND HAD OCCASIONED SOVIET DECISION TO EXPORT ADDITIONAL OIL.

(E) ALKHIMOV SAID THAT THE U.S. HAD BEEN RIGHT TO DEVALUE THE DOLLAR; SECRETARY SIMON CONCURRED.

4. GOLD. ALKHIMOV SAID THAT THE UNITED STATES HAD UNDERMINED THE PRICE OF GOLD. HE COULD NOT UNDERSTAND THE REASON FOR THIS, BUT IT WAS PRESUMABLY TO SUPPORT A SHORT-TERM OBJECTIVE. SECRETARY SIMON RESPONDED THAT WE DO NOT BELIEVE IN SETTING A LEVEL FOR GOLD, COPPER OR ANY OTHER PRECIOUS METAL, WHICH SHOULD FIND ITS OWN WORLD PRICE

LEVEL. ALKHIMOV SAID "WE AGREE". SECRETARY SIMON NOTED THAT THE GOLD PRICE HAD APPROACHED \$200 FOR TWO REASONS: (A) THE EXTRAORDINARY RATE OF INFLATION, WORLD-WIDE, AND THE FLIGHT THAT TOOK PLACE FROM ALL CURRENCIES WHEN CONFIDENCE DECLINED AND (B) SPECULATION BY THE GOLD BUGS, PREDICTING THE PRICE WOULD REACH \$400 PER OUNCE. THE SUBSEQUENT DECLINE IN THE RATE OF INFLATION AND THE REDUCTION OF SPECULATIVE FEVER BROUGHT DOWN THE PRICE OF GOLD. SECRETARY SIMON ADDED THAT WE HAVE NO GOALS FOR GOLD, HAD REFRAINED IN THE TREASURY FROM SELLING GOLD IN PERIODS OF MARKET UNCERTAINTY AND WOULD CONTINUE TO DO SO WHILE THE INTERNATIONAL MONETARY FUND IS SELLING GOLD TO HELP THE COUNTRIES OF THE THIRD WORLD. ALKHIMOV RESPONDED THAT THE USSR HAD NEVER TRIED TO UNDERMINE THE DOLLAR: "WHEN IT WAS RATHER WEAK, WE DID NOT TRY TO SELL GOLD." THE USSR DID NOT WISH TO CREATE AN "ARTIFICIAL SITUATION". SECRETARY SIMON COMMENTED THAT THE IMF REGARDS INFLATION AS PROBLEM NUMBER ONE. HE EXPRESSED THE CONVICTION THAT ALL COUNTRIES WILL PURSUE MODERATION AND THAT NO ONE WILL SEEK TO PUMP UP ITS MONEY SUPPLY. ALKHIMOV INQUIRED WHAT SECRETARY SIMON WOULD REGARD TO BE A "REASONABLE" PRICE FOR GOLD. THE SECRETARY RESPONDED, "WHO CAN SAY?"

5. ENERGY. ALKHIMOV THEN INQUIRED WHAT WOULD BE A REASONABLE PRICE FOR OIL. SECRETARY SIMON RESPONDED: "MUCH LOWER THAN THE PRESENT ONE," WHICH HE DESCRIBED AS BASED ON MONOPOLY, BASICALLY BLACKMAIL. THERE IS A NEED TO PRODUCE MORE ENERGY, AFTER WHICH THERE WILL BE PRICE STABILITY, CONFIDENTIAL

PAGE 04 STATE 304583

BUT IT WILL TAKE YEARS TO GET ENOUGH ENERGY FROM SUCH ALTERNATIVE SOURCES AS NUCLEAR AND GAS. ALKHIMOV RESPONDED THAT A HIGHER PRICE FOR OIL HELPS TO ENCOURAGE THE DEVELOPMENT. THE SECRETARY SAID THAT THIS WAS AN ARGUABLE POINT, BUT OIL WAS CLEARLY PRICED HIGHER THAN NECESSARY AT PRESENT. ALKHIMOV COMMENTED LAUGHINGLY, "YOU WOULD KNOW BEST. YOU WERE THE 'ENERGY CZAR'." SECRETARY SIMON SAID THAT THE U.S. HAS FIFTY PERCENT OF THE INDUSTRIAL WORLD'S COAL SUPPLY. WE COULD ONLY ROUGHLY ESTIMATE OUR OIL SHALE RESERVES. IT WOULD COST ABOUT ONE TRILLION DOLLARS FOR THE U.S. TO ACHIEVE SELF-SUFFICIENCY IN ENERGY. ALKHIMOV INQUIRED IF THE WORLD PRICE OF OIL WOULD INCREASE. SIMON RESPONDED THAT THIS WAS A POLITICAL QUESTION - THE SHAH OF IRAN WANTS AN INCREASE. ALKHIMOV SAID THAT THE IRANIANS COMPLAIN OF THE INCREASE OF PRICE IN THE GOODS THEY MUST BUY. SECRETARY SIMON SAID THAT WE HAVE DONE EXHAUSTIVE STUDIES WHICH REFUTE THIS ECONOMIC NONSENSE. IN FACT, THE PRICE OF OIL ON A TRADE-RELATED BASIS HAS RISEN FIVE TIMES HIGHER IN TERMS OF IRANIAN IMPORTS. ALKHIMOV COMMENTED THAT THE USSR CANNOT PRODUCE ITS OIL AS CHEAPLY AS IRAN BECAUSE IT MUST BE TRANSPORTED LONG DISTANCES. HE SAID THAT THE SOVIETS "FAVOR

THE PRICE THAT EXISTS." JAPANESE AND SOVIET EXPERTS ARE SURE THERE IS OIL AROUND SAKHALIN. THE BIGGEST SOVIET RESERVES ARE ALONG THE IRANIAN BORDER, BUT THERE IS ALSO OIL IN THE NORTH.

6. U.S. MONETARY AND FINANCIAL POLICY. SECRETARY SIMON, WHILE DESCRIBING U.S. MONETARY AND FINANCIAL POLICY AND OPERATIONS, POINTED OUT THAT THE U.S. IS ONE OF THE FEW REMAINING COUNTRIES WITH AN INDEPENDENT CENTRAL BANK. HE EXPRESSED HIS CONFIDENCE THAT CHAIRMAN ARTHUR BURNS WOULD BE DELIGHTED TO COME AND EXPLAIN HOW THE MONEY SUPPLY IS REGULATED. ALKHIMOV SAID THAT GOSBANK HAS THE SAME RESPONSIBILITY AS BURNS - TO TELL THE TRUTH. SECRETARY SIMON MENTIONED THE EXISTENCE OF A BASIC LAW CALLED "MORE" IN THE U.S.: ALKHIMOV SAID THAT IN THE USSR THIS PHENOMON IS CALLED "DAVAI, DAVAI" ("GIMME GIMME").

7 SOVIET RESOURCES. SECRETARY SIMON, NOTING THE GREAT SIZE OF THE USSR, ASKED ABOUT EXPLORATION FOR MINERALS. ALKHIMOV
CONFIDENTIAL

PAGE 05 STATE 304583

RESPONDED THAT THERE ARE MANY UNEXPLORED REGIONS IN SIBERIA, WHICH U.S. POLICY HAS PUSHED THE USSR TO DEVELOP. FOR EXAMPLE, U.S. RESTRICTIONS ON THE EXPORT OF DIAMONDS TO THE USSR IN THE EARLY POSTWAR ERA LED TO SUCCESSFUL SOVIET EXPLORATION. ALKHIMOV STATED THAT THE BAIKAL-AMUR RAILWAY WOULD CROSS 3,000 KILOMETERS OF SIBERIA TO THE SOVIET FAR EAST. TRAVERSING A REGION RICH IN NON-FERROUS MINERALS, IRON ORE, GOLD, COPPER AND SILVER. NEW METALLURGICAL CENTERS COULD BE EXPECTED TO ARISE AS A RESULT. EVEN OIL HAS BEEN FOUND IN THE REGION. SECRETARY SIMON COMMENTED THAT A PIPELINE WOULD OBVIOUSLY BE NEEDED, ULTIMATEDLY. ALKHIMOV SAID THAT DISCUSSIONS ON A PIPELINE ARE ALREADY UNDER WAY - WITH THE JAPANESE. SUMMING UP, SECRETARY SIMON SAID THAT ONCE WE HAVE SUCCESSFULLY DEVELOPED TECHNOLOGY FOR THE USE OF OIL SHALE AND OTHER ALTERNATIVE SOURCES OF ENERGY, AND ONCE THE SOVIETS HAVE REACHED CAPACITY, THERE WOULD BE PRICE STABILITY AND INDUSTRY COULD GROW MORE RAPIDLY.

8. CONSUMER CREDIT. IN RESPONSE TO MR. SEIDMAN'S QUESTION ABOUT CONSUMER CREDIT IN THE USSR, ALKHIMOV SAID THAT THIS IS AVAILABLE FOR CONSTRUCTION OF APARTMENTS ("FLATS") BY SOVIET CITIZENS. CREDIT WAS AVAILABLE AT ONE PERCENT AND REPAYABLE IN UP TO FIFTEEN YEARS. SECRETARY SIMON INQUIRED IF HE COULD GET A LOAN. ALKHIMOV RESPONDED THAT HE HAD GOT ONE FOR HIS OWN DAUGHTER; ALKHIMOV EXPLAINED THAT THE RECIPIENT OF CREDIT MUST RESIDE IN THE FLAT AND PAY FORTY PERCENT OF THE CONTRUCTION COST - THE OTHER SIXTY PERCENT COULD BE CREDIT. HE ADDED THAT SOVIET STORES ARE SELLING MORE AND MORE GOODS ON CREDIT, INCLUDING TELEVISION, FURNITURE AND OTHER CONSUMER DURABLES.

9. POPULATION. SECRETARY SIMON ASKED ABOUT SOVIET POPULATION GROWTH. ALKHIMOV SAID THAT DUE TO WARTIME POPULATION LOSSES, THE USSR WOULD SOON EXPERIENCE A LABOR SHORTAGE.

10. BILATERAL TRADE RELATIONS. CONCERNING THE MEETING OF THE TRADE AND ECONOMIC COUNCIL, SECRETARY SIMON COMMENTED THAT THIS WAS THE BIGGEST DELEGATION OF PROMINENT U.S. BUSINESSMEN YET TO COME TO THE USSR. "YOU HAVE THE DECISION MAKERS HERE," HE SAID. ALKHIMOV AGREED, NOTING THAT OF COURSE ONLY "LIFE" COULD DECIDE WHEN US-SOVIET TRADE RELATIONS WOULD BE CONFIDENTIAL

PAGE 06 STATE 304583

NORMALIZED. SIMON RESPONDED THAT THE OUTGOING ADMINISTRATION COULD SPEAK ONLY FOR ITSELF. IT HAD TRIED TO ELIMINATE THE JACKSON-VANIK AMENDMENT. HE WOULD BE CALLING FOR ITS REMOVAL IN HIS TALK TO THE COUNCIL LATER IN THE DAY. SECRETARY SIMON ADDED THAT IN ELECTION YEARS EMOTIONS RUN HIGH. 1976 HAD NOT BEEN A GOOD YEAR TO NORMALIZE TRADE RELATIONS. 1977 WOULD BE BETTER. IN 1978 THERE WOULD AGAIN BE ELECTIONS, HENCE THE SOVIETS WOULD BE WELL ADVISED TO SEEK A CHANGE IN THE LAW EARLY IN 1977. ALKHIMOV RESPONDED "SO WE CAN BE OPTIMISTIC FOR ABOUT ONE YEAR." THE SECRETARY CONCURRED, SAYING THE SOVIETS SHOULD PUSH HARD. HE NOTED THAT THERE WAS A MATTER OF FACE-SAVING INVOLVED. IT IS HUMAN NOT TO WANT TO ADMIT A MISTAKE. MR. SIMON CONCLUDED THE CONVERSATION ON A BANTERING NOTE BY CONCEDED THAT HE HAD MADE ON MISTAKE TEN YEARS AGO AND WAS WILLING TO ADMIT IT NOW.
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